GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2054
ANSWERED ON:30.11.2007
RULES FOR FOREIGN INSTITUTIONAL INVESTORS
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has recently modified the rules and introduced certain modifications and restrictions on Foreign Institutional Investors;

(b) if so, the details thereof; and

(c) the reasons necessitating such restrictions and modifications?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) to (c): In consultation with Government and RBI, SEBI has, with a view to streamlining the participation of FIIs in the Indian securities markets, approved the certain measures on 25th October, 2007. These include:

1. FIIs and their sub-accounts shall not issue/renew Offshore Derivative Instruments (ODIs) based on derivatives.

2. The sub-accounts of FIIs shall not issue fresh ODIs.

3. The FIIs with notional value of PNs outstanding (excluding derivatives) as a percentage of their Assets Under Custody (AUC) in India of less than 40% can issue further ODIs only at the incremental rate of 5% on annual basis of their AUC in India, till such time the percentage reaches 40%.

4. The FIIs with notional value of PNs outstanding (excluding derivatives) as a percentage of their AUC in India of more than 40% shall issue PNs only against cancellation / redemption / closing out of the existing PNs of at least equivalent amount.

5. Issuance of ODIs/PNs would be limited to only 'regulated' entities.

6. The registration of FIIs and sub-accounts will be perpetual.